

# **GENERAL FUND TRANSFERS**

A Report Prepared for the  
**Legislative Finance Committee**  
**Subcommittee on Budget and Appropriation Processes**

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## **PURPOSE**

There is no formalized review or prioritization process for general fund transfers like there is for temporary appropriations such as those in HB 2. With \$276 million general fund dollars expected to be transferred in the 2009 biennium through 21 legislatively approved transfers and more added each legislative session, the Legislative Finance Committee (LFC) accepted staff's work plan suggestion to inventory and assess general fund transfers. The study was assigned to the LFC subcommittee on budget and appropriation processes.

This report provides background information on general fund transfers to the Legislative Finance Committee (LFC) subcommittee on budget and appropriation processes. The material provides the committee with a basic understanding of the prevalence, types and characteristics of general fund transfers. A proposal for addressing these transfers is presented for the subcommittee's consideration in directing staff on how to proceed.

## **WHAT ARE TRANSFERS?**

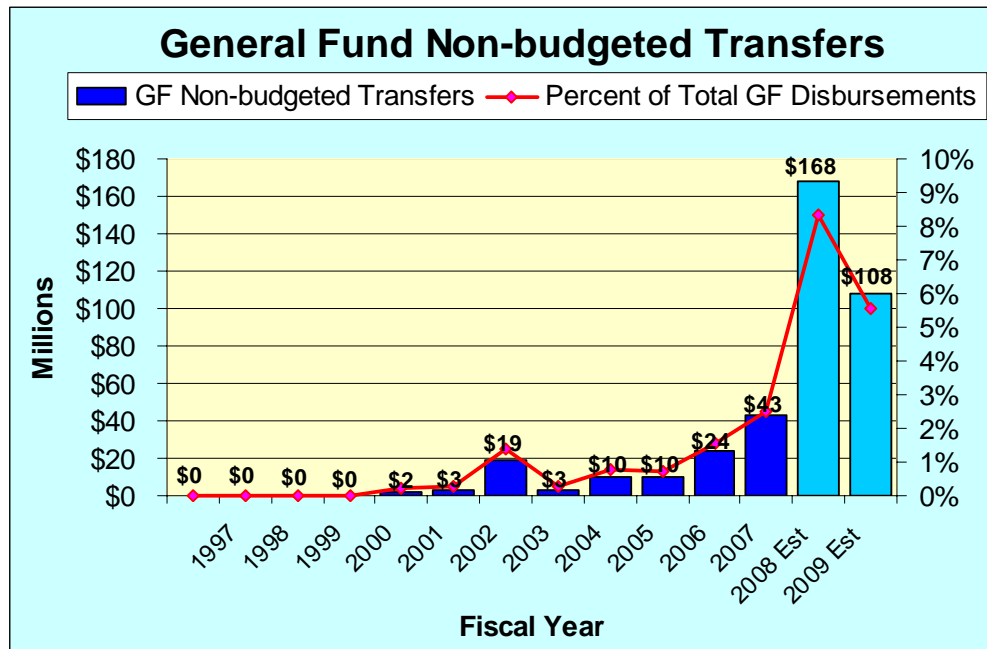
The Montana Constitution requires that all money paid out of the state treasury, except interest paid on the public debt, be done with an appropriation. However, the state treasury consists of numerous accounts and with proper legislative authorization money may be transferred from one account to another without an appropriation. This results in less money in one account for the programs it funds and more in another. General fund transfers move money from the general fund to some other fund. These transfers must be authorized by the legislature in legislation. They may be in either uncodified sections of statute (one-time in nature) or permanent statute. Once transferred to another fund, the money takes on the characteristics, requirements, and restrictions of that fund and loses its "general" nature. The permanent transfers are not an appropriation and, similar to statutory appropriations, are not reviewed in the appropriations process. When projecting the future general fund balance, a transfer of general fund money to another fund has the same effect on the general fund balance as an appropriation. Therefore, it seems prudent that the legislature periodically reviews the permanent transfers to see if they are still fulfilling the legislature's intended policy or if changes should be made.

## **HOW MUCH?**

From FY 2000 to 2007, \$114.4 million has been transferred out of the general fund to other accounts that fund non-general fund programs. The total amount is expected to increase to \$389.6 million at the end of the 2009 biennium. As illustrated in Figure 1, the annual amount has grown from \$0 in FY 1999 to \$42.8 million in FY 2007 (about 1.6 percent of total general fund expenditures). Of the FY 2007 amount, \$34.4 million was authorized as one-time transfers with the remaining \$8.4 million permanently authorized in statute.

For the 2009 biennium, the legislature has authorized an estimated \$275.2 million of general fund transfers. Figure 1 below shows the amount of general fund transfers by fiscal year with estimated amounts for FY 2008 and 2009.

Figure 1



## ONE-TIME TRANSFERS

Figure 2 shows that of the \$275.2 million of general fund transfers anticipated in the 2009 biennium, \$256.5 million was approved by the 2007 legislature as one-time transfers (defined as terminating by the end of FY 2009) in legislation that is not codified. Of the remaining \$18.7 million, \$17.9 million are permanent transfers authorized in statute and \$0.8 million are agency accounting entries.

Figure 2  
One-time General Fund Transfers

Authorization	Name	Legislative Session	2009 Biennium		
			Fiscal 2008	Fiscal 2009	Total
Un-codified	HB 4 - Transfers to capital project funds	2007 May SS	\$82.621	\$97.323	\$179.944
Un-codified	HB 9 - To cultural trust	2007	1.500	0.000	1.500
Un-codified	HB 139 - Legislative branch retirement termination	2007	0.400	0.000	0.400
Un-codified	HB 116 - To orphan share and environmental contingency	2007	0.500	0.000	0.500
Un-codified	HB 155 - National guard life insurance	2007	0.100	0.100	0.200
Un-codified	HB 160 - Repay land trusts for diversions	2007	0.139	0.000	0.139
Un-codified	HB 179 - Military family relief	2007	1.000	0.000	1.000
Un-codified	HB 269 - To noxious weed trust	2007	5.000	0.000	5.000
Un-codified	HB 406 - Community health center support	2007	0.650	0.650	1.300
Un-codified	HB 473 - To water adjudication account	2007	25.000	0.000	25.000
Un-codified	HB 608 - To endowment for children trust fund	2007	1.000	0.000	1.000
Un-codified	SB 166 - To general license acct. senior & youth free license	2007	0.392	0.118	0.510
Un-codified	HB 3 - To the fire suppression SSR account	2007 Sep SS	40.000	0.000	40.000
Total			\$158.302	\$98.191	\$256.493

## PERMANENT TRANSFERS

There are at least eight permanent general fund transfers in statute. These occur in the MCA sections shown in Figure 3.

Figure 3 Permanent General Fund Transfers					
Authorization	Name	Legislative Session	2009 Biennium		Total
			Fiscal 2008	Fiscal 2009	
15-1-122	HB 124 transfers of motor vehicle fee revenue	2001	\$8.735	\$8.919	\$17.654
17-1-511(2)	SB 553 - Incentives for rural physicians	2007	0.000	0.063	0.063
39-71-2352(6)	Old state fund shortfall	2002 Aug SS	0.000	0.000	0.000
41-5-130(6)	HB 414-to youth prevention account	2005	0.000	0.000	0.000
53-20-171(2)	Developmental disability tax credit excess	2003	0.000	0.000	0.000
77-1-108(4a)	HB19 - To Morrill trust land administration account	2007	0.080	0.000	0.080
87-2-801(6)	SB 166 - To general license acct. purple heart free license	2007	0.011	0.011	0.022
87-2-803(12d)	SB 243 - To general license acct. national guard free license	2007	<u>0.043</u>	<u>0.043</u>	<u>0.086</u>
Total			\$8.869	\$9.036	\$17.905

The largest permanent general fund transfer amounts, \$17.7 million in the 2009 biennium, are authorized in 15-1-122, MCA (there are actually 10 separately identified transfers within this one section). As originally enacted in HB 124 by the 2001 legislature, these amounts were based on a portion of specifically identified motor vehicle fees. This was amended by the 2005 legislature in SB 285 to base each transfer amount on a percentage of total motor vehicle fee revenue. As seen in Figure 3, four of the permanent transfers were enacted by the 2007 legislature with expected transfers totaling over \$0.2 million in the 2009 biennium. Of the remaining three, no transfers are expected:

- The transfer in 39-71-2352, MCA, is only activated if the old state fund has a shortfall
- The transfer in 53-20-171, MCA, for developmental disability tax credit excess is currently un-codified because it terminates January 1, 2008
- The transfer in 41-5-130, MCA, for the youth prevention account was amended extensively by the 2007 legislature in SB 146 and it appears there is no longer a general fund transfer

## ADVANTAGES AND DISADVANTAGES

Some advantages and disadvantages of general fund transfers are:

### ADVANTAGES

1. Monetary characteristic changes – The legislature may want the general fund money to take on certain characteristics of other funds. For example: by making a one-time transfer of general fund money to a capital projects fund, the appropriations of that money will continue indefinitely until the money is spent or the appropriation is repealed by the legislature. If the general fund money were appropriated directly in the general appropriations act, the appropriations would expire at the end of the biennium.
2. Expediency – Transfers may be thought of an easier way to make general fund money available for new programs or policy than through the appropriations process.
3. Policy – In times of large fund balances, one-time transfers offer an easy way for the legislature to move general fund money to areas in which they want to fund policy that will not require ongoing funding.

### DISADVANTAGES

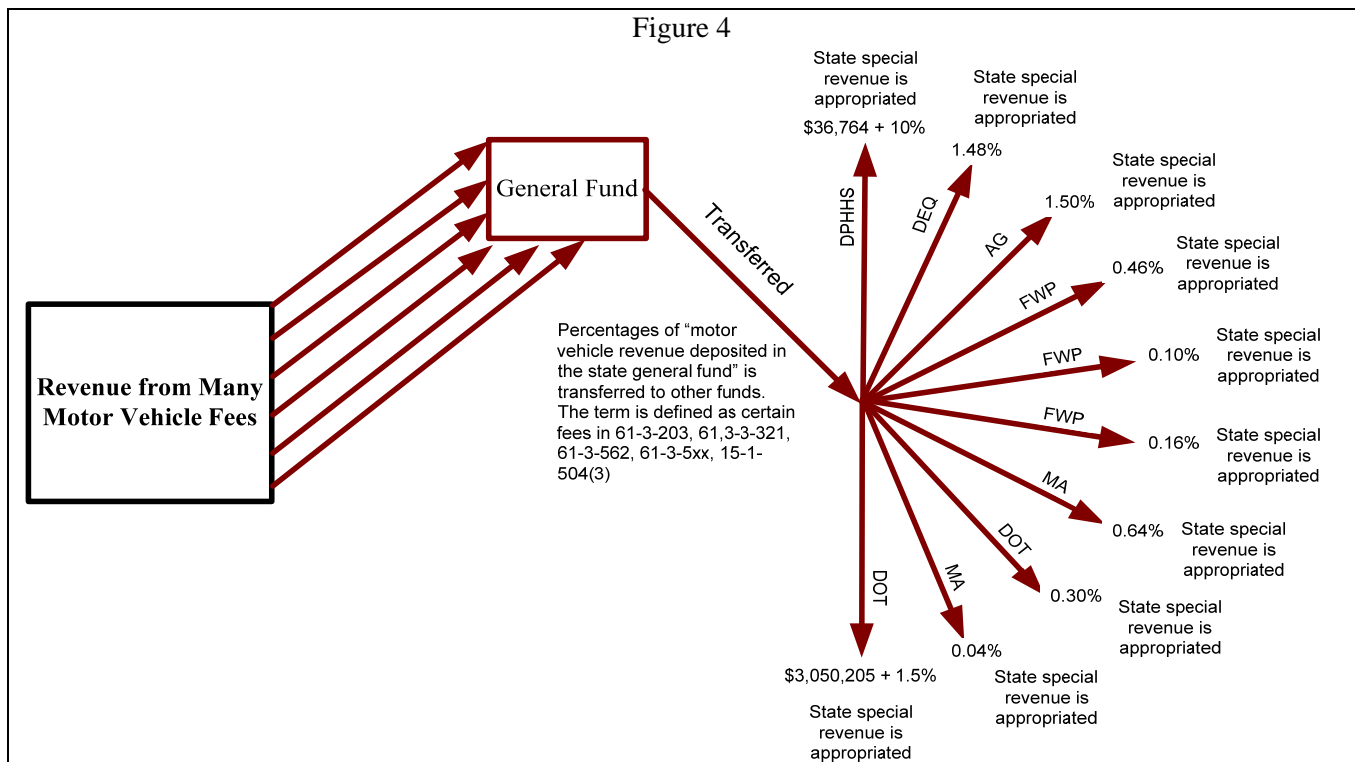
1. Out of Sight – Permanent general fund transfers are not reviewed like appropriations and tend to be forgotten by the legislature. Therefore, they are not prioritized with the myriad of programs in the general appropriations act that compete for general fund money. Since transfers are not appropriations, they are excluded from the statutorily mandated budget comparison in 17-7-150 & 151, MCA.
2. Inefficiency – Transfers require more calculations and accounting entries than direct appropriations and are, therefore, unnecessarily more complex and inefficient.
3. Staff time - Legislative and executive fiscal staff must estimate amounts of existing transfers and track transfers contained in proposed legislation.

## THE PROBLEM

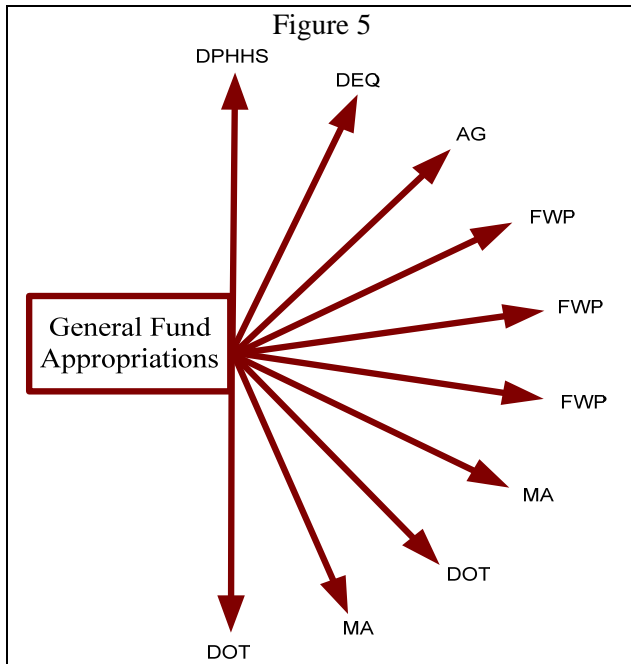
Transfers are a relatively recent occurrence (beginning in FY 2000), but have jumped quickly to record number and magnitude in the 2009 biennium (21 transfers totaling \$275.2 million). Permanent transfers unnecessarily add an additional layer of complexity and inefficiency to a process that could be made easier and more efficient. If the legislature wants a program or function to be funded with general fund money, an appropriation directly out of the general fund is more efficient than transferring general fund money from the general fund to another fund and then providing an appropriation from that other fund.

To illustrate this point, the permanent general fund transfers authorized in 15-1-122, MCA, is used as an example. Currently it works like this:

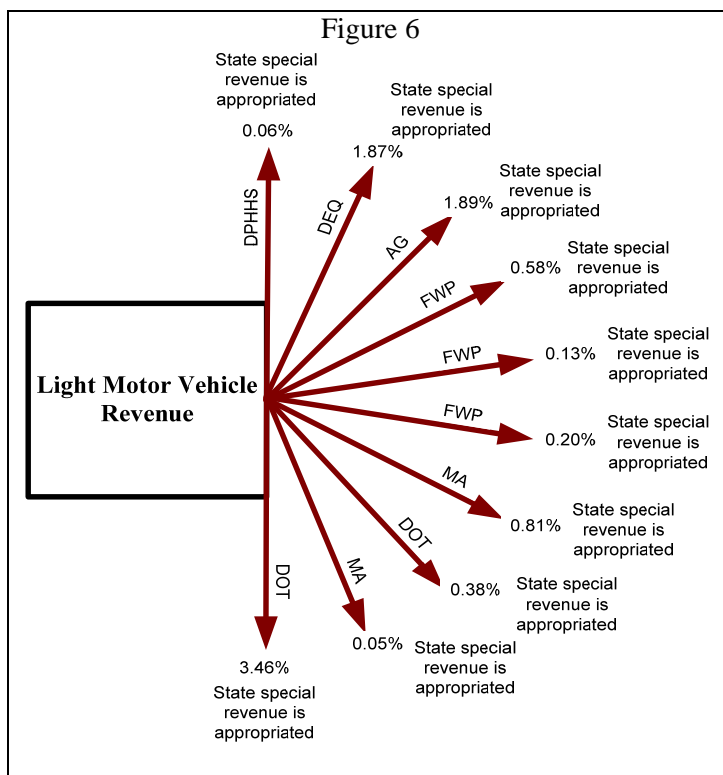
- To describe it in a sentence: Revenue from multiple sources is deposited in the general fund and this revenue is then transferred to and deposited in other funds from which the legislature appropriates the money for the applicable programs.
- To show it in a diagram:



There simply ought to be a better way. In fact, there are two ways to make it simpler:



1. The “direct method” (Figure 5) – The legislature eliminates the general fund transfers to the state special revenue accounts and replaces the current HB 2 state special revenue appropriations with general fund appropriations. Although this would be a simpler and more efficient process, the programs would be competing with all other general funded programs and the appropriations may be subject to changes based on the amount of available general fund money. For the two programs currently receiving an annual percentage increase in the general fund transfer (see Figure 4), no increase would be guaranteed. Since the amount of the new general fund appropriations would be offset by the elimination of the general fund transfers, there would be little effect on the general fund balance.



2. The “in between” method (Figure 6) – The legislature eliminates the general fund transfers to the state special revenue accounts and replaces them with a dedicated portion of revenue from a source currently deposited to the general fund. Since the legislature is currently appropriating the money from these state special revenue accounts, there may be no need to change HB 2 appropriations. Although not guaranteed, to the extent that the dedicated revenue source tends to increase over time (such as the light motor vehicle revenue shown in Figure 6), the accounts would receive an increasing amount of revenue. Because the increase in the general fund balance caused by the elimination of the transfers would approximately equal the decrease caused by the reduction in general fund revenue, there would be little effect on the general fund balance.

# WHAT TO DO?

The following options for the subcommittee to consider are arranged in two categories: 1) one-time general fund transfers; and 2) permanent general fund transfers.

## ONE-TIME GENERAL FUND TRANSFERS

- There may be no need for the subcommittee to review general fund transfers that are one-time in nature and have not been codified. A policy for one-time transfers of general fund gives the legislature needed flexibility to implement policy by moving money from one fund to another. Most of these transfers for the 2009 biennium have already been made with the remaining ones to be made by the end of the biennium. It would be difficult to attempt to reverse the processes that have already been set in motion.
- In anticipating future one-time transfers, the subcommittee could develop statutory criteria (similar to the statutory appropriation criteria) that would be used to determine the appropriateness of a transfer.

## PERMANENT GENERAL FUND TRANSFERS

The subcommittee could:

- Review all eight of the permanent general fund transfers (totaling \$17.9 million for the 2009 biennium. See Figure 3) to see if any could be replaced with one of the two methods described above (Figures 5 and 6). Although the transfers would be eliminated, the recipients or programs would receive either about the same amount revenue or a direct general fund appropriation.
- Review just the general fund transfers in 15-1-122, MCA (there are 10 separate transfers totaling \$17.7 million for the 2009 biennium. See Figure 3). These transfers could be replaced with:
  - Percentage allocations of revenue from the light motor vehicle fees, currently deposited to the general fund (see Figure 6). The percentages would be determined based on FY 2007 actual light motor vehicle fee revenue and the actual FY 2007 transfer amounts for each recipient. If enacted, general fund disbursements would decrease by approximately the same amount that general fund revenues would decrease for little net impact to the general fund balance. If approved, the process for providing revenue to the state special revenue accounts would be simplified and made more efficient. To the extent that light motor vehicle fee revenue is an increasing revenue source, the recipients would receive additional revenue each fiscal year; or
  - Direct general fund appropriations (see Figure 5)
- Develop statutory criteria (similar to the statutory appropriation criteria) that would be used to determine the appropriateness of an existing or new transfer.

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